



## Why Consumer Service Organization Loans?

### The problem for Michigan

Once finalized, new Federal government mandates will significantly impact the state-regulated deferred presentment services industry.

- The Consumer Financial Protection Bureau (CFPB) is seeking to protect consumers and prevent them from falling into "debt traps." The unintended consequences will hurt the State of Michigan, the economy and consumers in many ways.
- The consequences are clear, CFPB internal estimates reveal a 60-75% loss in revenue for state regulated entities.

### The impact from not acting

These mandates will bring unintended negative consequences to the state's still struggling economy.

- **On Jobs** – more than 2,000 Michiganders are employed by state regulated lenders, providing wages and benefits for their families, according to a recent Charles River & Associates study.
- **On Small Business** – small businesses service thousands of contracts in providing goods and services worth tens of millions of dollars.
- **Is A Double Hit To Small Business** – deferred presentment borrowers support small businesses in their community by purchasing goods and services worth hundreds of millions of dollars. Over \$900,000,000 is advanced to consumers who spend the dollars to cover things like car payments, rent, mortgage payments, utilities, medical care, auto repairs, shopping, food and entertainment.
- **On State Government** – the industry is the third largest revenue source, generating millions in licensing and database verification fees to the state. There is a robust regulatory and oversight program under the Department of Insurance and Financial Services nearly without consumer complaint. If regulated entities are eliminated, the demand does not leave Michigan, but the supply does. E-commerce innovation and trends to online, offshore and tribal lending create far more problematic regulatory and oversight issues for the state and do not provide any funding to pay for it.
- **On Consumers** – lastly and most importantly, consumers will be faced with the difficult decision whether to use unregulated lenders because of the lack of regulated lenders. Where do consumers go?

### The current status of reforms

There is a legal disagreement between legal counsel representing the industry and the state's regulatory authority, the Department of Insurance and Financial Services.

- The Regulatory Loan Act of 1939 (RLA) regulates the interest rates and origination fees, among other things, for lenders extending credit to consumers under the Act.
- The Credit Services Protection Act of 1995 (CSP) regulates the fees and how they are to be collected for entities providing credit services under the Act.
- There is a dispute regarding the treatment of those fees.

### The Solution for Michigan

The Legislation being proposed removes the ambiguity by clarifying that the interest and fees entitled to the lender may be charged and collected in a manner consistent with the RLA and the fees entitled to the provider of credit services may be collected in a manner consistent with the CSP.

By modernizing the credit industry with this legislative remedy, we can preserve an industry and ensure consumers have a well-regulated industry to patronize if they so desire.



## **Consumer Service Organization Loan FAQ**

### **What do the bills do?**

- The bills clarify that a regulated lender is entitled to fees and interest as authorized by the regulatory loan act of 1939 and that a credit service provider is entitled to the fees as authorized by the credit services protection act of 1995, and that fees and interest charged by separate entities do not get aggregated under the regulatory loan act.

### **Besides clarifying Michigan statute, there are other key reasons to pass these bills.**

- The federal government has proposed rules through the Consumer Financial Protection Bureau (CFPB) that will significantly impair the ability of Michigan lenders to make loans under Michigan law.
- These bills would also provide flexibility in the consumer credit market for current and future companies to meet the changing demands of consumers seeking credit in a regulated environment.
- Continues to not require collateral for these types of consumer loans. Unlike other lenders, consumer lenders are investing their own money. They are not lending money borrowed from the Fed.
- 76% of Americans are living paycheck to paycheck without resources to cover unexpected or disruptions in income.
- According to the FDIC, nearly 80 million Americans are either unbanked or underbanked (not served by traditional banking products like a checking account).
- In Michigan, the same FDIC report found that 5.7% of the population was unbanked and 18.3% of the population was underbanked.

### **What will be the consequences of not passing the statutory fix?**

- The Federal Government mandates on the consumer credit market will cripple existing state regulated entities and will not provide a solution for state regulated entities to compete for consumers.
- The mandate will adversely affect consumers who lack sufficient state regulated credit options, thousands of employees who work in the industry, small businesses who provide goods and services to industry to run their retail operations and the small businesses who provide goods and services to consumers who use the credit obtained from regulatory providers.
- State government suffers by losing revenue and oversight from licensed and regulated entities and actually will be faced with higher regulatory costs pursuing out-of-state and online lenders operating outside of Michigan.
- A study by the Federal Reserve Bank of New York found that both Georgia and North Carolina saw higher incidences of returned checks, bankruptcy filings and complaints to the Federal Trade Commission about collection practices after those states banned consumer service organization (CSO) loans.
- Michigan's CSO lending industry would be effectively eliminated and approximately 2.3 million people would be left with no viable access to credit.

### **Do other states regulate in a similar fashion?**

- Yes, while states vary in how they regulate various industries, the consumer credit market is best when it's convenient and competitive for the consumer. Ohio and Texas have this model, the marketplace is regulated at the state level, and all consumers benefit from the competition.
- A number of other states have a similar model that will be used more extensively when the CFPB rules are implemented.

These bills provide a simple fix to preserve jobs and create a competitive environment for investment and innovation to the benefit of consumers seeking regulated credit to address their needs.



## **Real People...Real Problems**

### **For those that need more access to credit**

"Our credit union has told us before that we were pre-approved for credit cards and loans. When we went in to talk to them they said, sorry, you have to put \$500 down for a \$500 loan. If we had \$500 to put down we wouldn't have to go there for the loan."

Steve and Vicki, Waterford, MI

"I borrowed once online from Western Sky (tribal lender) and the interest rates were through the roof. I actually have settlement money coming any day because they overcharged me."

Jess, Clarkston, MI

"I've been in need of this type of loan. I belong to two credit unions and I'm not able to get loans like this unless my credit is spectacular! Which it isn't, but I'm working on it."

Alissa, Fenton, MI

### **For those getting back on their feet**

"Any options that allow longer payments and lower interest could only assist already struggling Americans, such as me. Banks and credit unions only look for ways to take your money and never loan."

Marsha, Warren, MI

"There have been many times I could not get a loan due to my credit score and not owning a home. I have had a lot of unfortunate things happen. Being able to get a higher loan amount that is more flexible would be beneficial."

Traci, Clarkston, MI

### **For those that need a lifeline**

"If this was possible today, it would save us from eviction or going without transportation. A credit union is useless to most of us in this economic bracket."

Angelo, Macomb, MI

"These loans would be most beneficial to middle class in times of need – i.e. medical crisis, taxes, or unexpected home or auto repairs."

Linda, Clinton TWP, MI

### **For those who are small business owners**

"As a small business owner just getting started, this could help me a great deal!"

Dawn, Detroit, MI

"It would be very helpful to start my new business and open up some employment for people in Shiawassee County."

Janet, Owosso, MI